

Cynthia A. Kitlinski  
Robert J. O'Keefe  
Darrel L. Peterson

Commissioner  
Commissioner  
Commissioner

In the Matter of the Implementation of an  
Energy Conservation Program for Peoples  
Natural Gas Company, a Division of  
UtiliCorp United Inc.

ISSUE DATE: November 5, 1987

DOCKET NO. G-011/M-87-236

ORDER APPROVING PEOPLES  
NATURAL GAS COMPANY'S  
CONSERVATION IMPROVEMENT  
PROGRAM AND REQUIRING NEW  
PROJECT AND INFORMATIONAL  
FILINGS

PROCEDURAL HISTORY

On April 29, 1987, Peoples Natural Gas Company (Peoples or the Company) filed its Conservation Improvement Program (CIP) with the Minnesota Public Utilities Commission (Commission), pursuant to the provisions of Minn. Rules, part 7840.0500. Notice of filing was given to participants in Peoples' last general rate case and participants in Peoples' two previous CIP cases, pursuant to the provisions of Minn. Rules, part 7840.0800.

The Department of Public Service (DPS) filed general comments relating to all utilities' CIP proposals on June 1, 1987 and comments specific to Peoples' proposal on the same date.

On June 12, 1987, the Commission issued its Order Regarding Filing Deficiencies and Requiring Additional Information, which required Peoples to provide certain supplemental information on or before July 6, 1987. On June 15, 1987, the Commission issued an Erratum Notice regarding the June 12 Order.

On June 19, 1987, Peoples requested a 30-day extension of time in which to provide the information required by the June 12 Order. On June 25, 1987, the Commission issued an Order Granting Extension, which established a new filing deadline for Peoples of August 5, 1987. On July 7, 1987, the DPS requested an extension of the 15-day period for comments on Peoples' supplemental filing. On July 16, 1987, the Commission issued an Order Granting Extension, which established a new filing deadline for comments of September 4, 1987.

1987, Peoples submitted a response to the DPS's comments.

On September 24, 1987, the Commission met to consider Peoples' proposed CIP.

### FINDINGS AND CONCLUSIONS

The Commission received no requests for a contested case hearing on Peoples' proposed CIP and will therefore resolve this case on the basis of the written record before it.

### PEOPLES' PROPOSED PROJECTS

The first issue is whether the projects proposed by the Company should be approved.

Peoples' filing continues the Company's emphasis on working with communities it serves to develop and implement CIP projects. The current filing expands the list of community organizations with which Peoples works to include two energy assistance delivery agencies - Mahube Community Council, Inc. and Semcac, Inc.

Peoples' proposed projects are described below:

Cannon Falls Energy Efficiency Project - This two-year project would combine a Home Energy Check-up (HEC) and a "House Doctor" retrofit into a single visit, called a "Residential Energy Retrofit" (RER). Peoples proposes to perform 250 RERs and an additional 100 HECs for Cannon Falls residents. RER services would include sealing of leaks and retrofitting of equipment, up to a maximum cost of \$200 per household. In an attempt to target those homes with the greatest need for energy improvements, RERs would be performed only on homes built prior to 1970. Peoples estimates that participants in this project would save 10% in heating costs by having an HEC, and 15% by having an RER. The proposed budget commitment to this project for the first year is \$9,250.

Houston Energy Action Time (HEAT) Project - This project would have two components - the Senior Citizen Energy project and the Home Energy Check-up. The Senior Citizen Energy project would serve 100 senior citizen households. An energy coordinator would visit each household to provide free energy information and free installation of weatherization kit materials. The Home Energy Check-up project would serve 200 households, providing each household with a free energy audit and a free weatherization kit. Peoples estimates that energy savings per participant in this project would average 4% per year. Peoples' proposed budget commitment to this project is \$16,000.

would be no cost to the House Doctor participants. Peoples estimates that project participants will save 2% to 7% per year, with an average of 4%. Peoples' proposed budget commitment to this project for 1987-88 is \$7,595.

West Concord Citizens Aware of Resources and Energy (CARE) Project - This project would offer a Home Energy Check-up to all West Concord residents. The Home Energy Check-up would consist of an energy consultation, an energy audit, the implementation of sample infiltration measures, and a follow-up phone call or visit. A more intensive energy consultation and a weatherization kit would be available only to senior citizens and handicapped customers. Peoples estimates that energy consumption would be reduced by 5% to 10% in 200 residential buildings over the two years of the project. Peoples' proposed budget commitment to this project for the first year is \$3,740.

Mahube Community Council, Inc. Project - This project would provide furnace services to approximately 57 Becker County households in the first year. Peoples estimates that more than 90% of the funding would be spent on low-income households. The project would provide services costing up to \$200 to upgrade a household's heating system. Services would include furnace inspection, a comprehensive furnace cleaning and tune-up, installation of parts (e.g., vent dampers for furnaces and water heaters), and a final inspection of work performed. Peoples estimates that average savings per participant would be about 10% per year. Peoples' proposed budget commitment to this project for this first year is \$15,105.

Semcac, Inc. Furnace Check Project - This project would provide free furnace services to 74 low-income customers. The project would serve homeowners and renters in Dodge, Fillmore, Houston, Mower, Olmstead, Steele, and Winona Counties. The project would be similar to the Mahube project discussed above. The actual work to be done on the furnaces would be determined by technicians certified by the Minnesota Department of Jobs and Training. The work would be done by area contractors certified in mechanical systems. Average energy savings of 8% to 10% are expected. Peoples' proposed budget commitment to this project for the first year is \$18,500.

These proposed projects are described in detail in the Company's filing of August 3, 1987.

Comparison of CIP project expenses with estimated annual bill reductions yields payback periods of approximately one to six years. These estimates are consistent with actual sample results from similar projects in Rochester and Worthington, for which comparable payback periods were 1.4 and 2.2 years, respectively. In addition, Peoples' data indicates long-term benefits to the utility in the form of contract demand savings. These results and estimates are further confirmed by the DPS's September 2 comments, which show that the Semcac project is likely to be cost-effective from the utility, participant and all-ratepayer perspectives. The Commission concludes that each of the

The second issue is whether the projects discussed above constitute an adequate program.

The Minnesota Court of Appeals in Hanna Mining Company v. Minnesota Public Utilities Commission, 375 N.W.2d 550 (1985) ordered the Commission to adopt interpretive rules for determining what constitutes a "significant investment" as used in Minn. Stat. Section 216B.241, subd. 2 (1986). In response to the Court's order, the Commission has begun rulemaking proceedings to adopt interpretive rules for conservation improvement programs, including a rule defining "significant investment." (See MPUC Docket No. G, E-999/R-85-847.) However, the Commission does not interpret the Court's decision to prohibit consideration of applications by utilities for approval of conservation programs under the criteria set forth in the plain language of the statute while the rulemaking process takes place. To read the Court's decision otherwise would delay implementation of conservation programs that the Legislature has directed utilities to undertake. See Minn. Stat. Section 216B.241 (1986). In order to carry out the Legislature's directives concerning conservation programs by utilities, the Commission will proceed under its procedural rules currently in effect. It will apply the facts to the statutory law in evaluating programs proposed by utilities until such time as interpretive rules are adopted.

The Commission finds that Peoples' proposed program is inadequate in two respects. First, the Company's proposed budget is substantially lower than the total spending level (\$200,000) proposed by Peoples in 1986 in In the Matter of the Implementation of an Energy Conservation Improvement Program for Peoples Natural Gas Company, Docket No. G-011/M-86-241 (September 29, 1986). The Commission does not find the size of the proposed decrease in commitment to be acceptable, given the legislative mandate in Minn. Stat. Section 216B.241 (1986) and the conservation potential remaining in Peoples' service area. Second, Peoples' proposed program is aimed entirely at the residential class of customers. While not disagreeing with this primary emphasis, the Commission recognizes that a considerable body of literature suggests that substantial conservation potential exists in the commercial class. (See, for example, the 1984 Energy Policy and Conservation Biennial Report by the Energy Division of the Minnesota Department of Energy and Economic Development.) No information available to the Commission suggests that this general statement is inapplicable to Peoples' service area or that cost-effective conservation measures will take place at desirable levels in the commercial class without the incentives and emphasis which can be provided by a CIP project. The Commission concludes that Peoples' efforts should be expanded to other customer groups (e.g., small commercial customers).

The Commission has examined the types of projects which might be suitable for Peoples to implement to increase its CIP commitment. The following projects appear to have sufficient merit to warrant implementation as CIP projects. The Commission will order Peoples to consider these projects for possible implementation, especially those projects directed toward commercial customers.

insulation levels. Depending upon the type of audit considered best for the project, the average cost of an audit could be between \$200 and \$500. Part of the cost presumably would be covered by the participant. To the extent possible, Peoples could use existing equipment and auditors in the project.

Gas Furnace/Boiler Tune-up Project - The purpose of this project would be to improve the efficiency of residential heating systems in the service area. It would differ from Peoples' proposed projects in that it would be limited to tune-ups and would allow a service person from Peoples, or a service area heating dealer, to perform the tune-up. Such a project currently is being operated by Northern Minnesota Utilities.

Water Heater Conservation Project - This could be a separate project or an extension of some of the community-based projects to include measures for conserving energy used for water heating. Peoples could target residential customers and small businesses such as nursing homes, restaurants, and laundromats.

Construction Conservation Project - Heat-loss standards would be developed for certain types of buildings heated with natural gas. Peoples would work with builders, developers, building owners, realtors, and home buyers to examine their construction plans and recommend cost-effective improvements to increase the energy efficiency of new buildings.

Rating of Multifamily Housing Project - Peoples would provide a free energy efficiency analysis to any apartment owner requesting one. The building then would be assigned a heating efficiency rating to allow prospective tenants to compare the relative heating efficiencies of various apartment complexes.

Appliance Rebate Project - The National Appliance Energy Conservation Act of 1987 sets efficiency standards for certain appliances for 1988 and beyond. Such standards could be an appropriate starting place for setting efficiency standards for use in a rebate project. Rebates would be paid to commercial or residential customers who purchase new or replacement gas appliances which meet the chosen efficiency standards.

The Commission will order Peoples to work with the DPS to develop at least one new project directed toward commercial customers and to submit a filing for Commission review within 90 days of the date of this Order. If the Commission finds that a proposed project is appropriate for implementation as a CIP project, Peoples would be expected to start the project early in 1988. The Commission suggests that a target budget level of about \$15,000 would be appropriate for the balance of the 1987-88 CIP year for such a project. The specific level of funding will be considered in detail when Peoples submits the project proposal for review. The projects listed above should also be considered by Peoples when it prepares its proposed CIP for 1988-89.

The Commission concludes that Peoples' program, as modified by the Commission, meets the statutory requirements. The indicated level of investment and expenditure will benefit approximately 800 customers, of whom approximately 300 are expected to be low-income persons or renters. The Company's financial commitment will be approximately \$89,105, which represents 0.07% of its total 1986 retail sales revenue and 97 cents per Minnesota customer. The Commission is aware of the tentative and subjective nature of judging, at this point, the significance of Peoples' investment and expenditure. Cost-effectiveness and the availability of other community resources for energy conservation can affect the program's significance. Reliable data on these and similar issues will not be available at least until the current projects are well under way. Evaluating the program as a whole, however, the Commission concludes that it appears to constitute a significant investment in and expenditure for energy conservation improvements.

Since the program also gives special consideration to the needs of renters and low-income persons, as required by statute, the Commission concludes that it meets the statutory requirements.

The Commission concludes that the projects described above constitute an adequate program for Peoples for 1987-88, assuming that cost estimates, numbers of participants, and other assumptions are reasonably accurate. The projects constitute necessary and reasonable efforts by Peoples to carry out its CIP responsibility.

In making these findings and conclusions on Peoples' budget for 1987-88, the Commission is not approving specific budget or project detail for the second and succeeding years of any projects. Multi-year projects will be reviewed for appropriate changes in subsequent years.

The DPS indicated in its comments on Peoples' revised filing of August 3, 1987 that the filing does not adequately address the following areas:

1. cost-effectiveness tests for each of the proposed projects from the utility and ratepayer perspectives;
2. comprehensive evaluation plans except for the Mahube and Semcac projects, which already have such plans in place; and
3. collection of uniform data on projects for status reports.

The Commission finds that the DPS is correct in its comments. The missing information will be important to the Commission in considering whether projects should be continued in subsequent years and whether similar projects should be implemented by Peoples and other utilities. The Commission will therefore require Peoples to provide the cost-effectiveness tests indicated in 1. above, to submit revised evaluation plans for all projects except the Mahube and Semcac projects, and to provide a plan to implement a standard reporting system which can be used in preparing status reports on existing and future CIP projects. These items will be due within 30 days of the date of this Order.

#### Implementation Rates for Weatherization Measures

In its August 3 filing, Peoples stated that the Company's experience with conservation audits is that very few customers implement the weatherization measures suggested by the audits. The Commission notes that implementation rates are critical to the success of Peoples' program, because several of the Company's proposed projects are dependent upon audits. Therefore, the Commission will order Peoples to work with the DPS in exploring ways by which the implementation of recommended conservation measures might be increased in the Company's projects. A report shall be filed by Peoples on its discussions with the DPS and any specific actions the Company will take to increase implementation rates. This report will be due within 30 days of the date of this Order.

will be due within 90 days of the date of this Order and shall contain, at a minimum, the following information:

1. the number of participants compared to projected participation levels;
2. dollar expenditures compared to the total projected budget;
3. the number of conservation improvements completed;
4. a discussion of unanticipated barriers to participation and strategies to remove such barriers; and
5. a discussion of any unforeseen project problems or project changes.

#### Annual Rate Adjustments

The Commission approved a CIP amount of \$55,000 for inclusion in current rates in In the Matter of the Application of Peoples Natural Gas Company, Division of UtiliCorp United Inc., for Authority to Increase Its Rates for Gas Service in Minnesota, Docket No. G-011/GR-86-144 (January 16, 1987). In that Order, the Commission indicated that \$55,000 was not an indication of the appropriate level of annual CIP expenses but rather an estimate of conservation expenses during the test year. The Commission indicated that overrecovery or underrecovery of actual expenses would be tracked and eliminated in the Company's next general rate case.

Peoples requested in its August 3 filing that rates be changed on an annual basis to eliminate any overrecovery or underrecovery of conservation project expenses. The Company provided no details related to an annual rate adjustment procedure. More importantly, there has been no showing by the Company that the Commission's decision in Peoples, G-011/6R-86-144 has caused or will cause a financial burden sufficient to warrant the administrative burden, expense, and customer confusion which would be caused by annual rate changes. As the Company acknowledges, it accepted the Commission's rate case decision on treatment of conservation expenses without judicial appeal. For these reasons, the Commission will deny Peoples' request.

#### CONSIDERATIONS FOR FUTURE FILINGS

The fourth issue is whether any additional restrictions and conditions should be placed on Peoples' 1988-89 CIP filing, pursuant to the provisions of Minn. Rules, part 7840.0500, item L.

#### Cost-Effectiveness Tests



effectiveness, the Commission will order Peoples to clearly describe in its evaluations the methodologies and assumptions used by the Company for cost-benefit analysis.

### Timing of Evaluations

The Commission finds that the best evidence of project success or failure is data showing the level and cost of energy or demand savings resulting from completed energy conservation improvements. Actual savings data should be used in determining whether to continue projects when projects have been in effect for enough time to generate such data. Peoples has indicated that it intends to continue the Mahube and Semcac projects for at least five years. Before the Commission approves continuation of these long-term projects, it expects to be able to review data indicating whether they have been successful projects in their first year. Peoples could incorporate this interim evaluation data into the status reports required for annual filings by Minn. Rules, part 7840.0500, item K.

### ORDER

1. The Minnesota Public Utilities Commission hereby approves the 1987-88 Conservation Improvement Program for Peoples Natural Gas Company, as described and modified herein. A total budget of \$89,105 is approved, subject to modification when the new project or projects are considered. The program shall include the following projects:
  - a. a Cannon Falls Energy Efficiency project;
  - b. a Houston Energy Action Time (HEAT) project;
  - c. a Rochester Energy Wellness Project;
  - d. a West Concord Citizens Aware of Resources and Energy (CARE) project;
  - e. a Mahube Community Council, Inc. project;
  - f. a Semcac, Inc. Furnace Check project; and
  - g. one or more new projects as described herein.
2. Within 30 days of the date of this Order, Peoples shall work with the Department of Public Service to develop and submit a filing which includes:

- c. a description of the utility's plan to implement a standard reporting system for status reports on its existing and future CIP projects; and
  - d. a proposed plan to increase the rate at which weatherization measures suggested by energy auditors are actually carried out by the project participants.
- 3. Within 90 days of the date of this Order, Peoples shall submit one or more new project filings, as described herein.
- 4. Within 90 days of the date of this Order, Peoples shall submit an interim status report for each project. The report shall contain, at a minimum, the following information:
  - a. the number of participants compared to projected participation levels;
  - b. dollar expenditures compared to the total projected budget;
  - c. the number of conservation improvements completed;
  - d. a discussion of unanticipated barriers to participation and strategies to remove such barriers; and
  - e. a discussion of any unforeseen project problems or project changes.
- 5. Peoples' request for annual rate adjustments to eliminate overrecovery or underrecovery of CIP expenses is denied.
- 6. People shall work with the DPS in identifying and considering possible new projects, as discussed herein, and shall submit a report on the results of that process with its next annual CIP filing.
- 7. In its next annual CIP filing, Peoples shall include, to the extent practicable, interim evaluations of the Mahube and Semcac projects.
- 8. Peoples shall include in its next annual CIP filing a list of topics of any evaluation reports it has completed, the submission dates of such reports to the Commission (if applicable), and a list of expected completion dates for evaluation reports on completed, on-going and newly proposed projects.

11. Peoples shall file 13 copies of all documents required by this Order with the Commission. Peoples shall also provide one copy each to the DPS and any other person requesting one. The DPS and other interested persons will have 15 days to file comments on the Company's filings with the Commission.
12. To the extent practicable, customers participating in Peoples' CIP projects shall have a free choice of the device, method or material, and seller, installer, or contractor for the CIP improvement.

Mary Ellen Hennen

Executive Secretary

(S E A L)